



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

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Senator Gary R. George and
Representative Joseph K. Leibham, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

We have completed a limited-scope fiscal review of the Department of Corrections' Bureau of Technology Management, which was initiated in response to an anonymous complaint about purchasing procedures, controls over the computer inventory, and budgeting processes. We did not find misappropriation of assets; however, the attached report identifies a total of \$2.2 million in questionable accounting transactions, as well as recommendations for improving accountability over computers and software licenses.

The questionable transactions include \$1.7 million in general purpose revenue funding that the Department transferred to a continuing program revenue appropriation under its control at the end of fiscal year 2000-01, and the accumulation of an excess balance of \$.5 million in another account in the same continuing appropriation. Instead of returning these funds to the General Fund for appropriation by the Legislature, the Department has designated them, or has already spent them, for various information technology projects and other items. The Legislature may wish to consider whether the Department should be allowed to retain some, or all, of the funds for the identified projects. In addition, the Legislature could consider whether the Department should continue to use its program revenue appropriation in the manner that led to the questioned transfers and excess balances.

We appreciate the courtesy and cooperation extended to us by agency staff during our review.

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/bm

cc: Senator Judith Robson
Senator Brian Burke
Senator Joanne Huelsman
Senator Mary Lazich

Representative Samantha Starzyk
Representative John Gard
Representative David Cullen
Representative Barbara Gronemus

Jon Litscher, Secretary
Department of Corrections

DEPARTMENT OF CORRECTIONS BUREAU OF TECHNOLOGY MANAGEMENT

The Division of Management Services, Bureau of Technology Management is responsible for meeting the Department of Correction's information technology (IT) needs, including maintaining a help desk for computer users, installing computer hardware and software, and providing network support. In addition, the Bureau oversees all computer-related purchases to ensure they are compatible with current computer systems. During fiscal year (FY) 2000-01, it incurred \$12.9 million in staffing and computer-related costs and charged \$7.3 million directly to a general purpose revenue (GPR) appropriation, \$1.2 million to a federal grant that helps fund the consolidation of various computer systems used by the Department, and \$4.4 million to the program revenue–service continuing appropriation authorized under s. 20.410(1)(kx), Wis. Stats.

We performed a limited–scope fiscal review of the Bureau in response to an anonymous complaint that questioned whether the Department had adequate controls over expenditures, computer inventories, and software licenses. We found no indication of misappropriation of assets, as had been alleged. However, we have concerns about the manner in which the Department converted the GPR appropriated to it for a specific, single, fiscal year into program revenue funding in accounts that do not lapse. Funds in the non-lapsing accounts are being spent at the discretion of agency management for computer–related and other activities without regard to the year in which they were originally appropriated by the Legislature. This provides the Department with a degree of budgetary flexibility that is not available to other state agencies.

Our report provides alternatives for legislative consideration regarding agency funding practices and provides recommendations to the Department for improving accountability for computer-related purchases.

Bureau of Technology Management Funding

Prior to FY 1999-2000, the Department did not have a formal process to budget, approve, and monitor IT projects. The Department has taken significant steps to bring structure and accountability to planning for IT expenditures and, in April 2000, formed an IT Management Council to develop priorities and approve projects, and budget and identify funding sources for them. The Council, which consists of the Department's division administrators and is currently chaired by the Department's Secretary, meets biweekly.

As noted, the Department charges a portion of its IT costs to the program revenue–service appropriation authorized under s. 20.410(1)(kx), Wis. Stats., (interagency and intra-agency programs), which is intended for the administration of programs or projects developed by other state agencies or within the Department. Statutory language creating the appropriation is broad and permissive, allowing internal funding mechanisms to be established for activities that the Department has historically financed and accounted for solely through GPR appropriations. As of June 30, 2001, the appropriation had 56 accounts, 8 of which are used by the Bureau of Technology Management, and an unspent continuing balance of \$5.9 million. Approximately \$4.5 million of the balance resided in two accounts used by the Bureau of Technology Management. We focused our review on these two accounts.

The first, “charges for services/IT projects,” is used by the Department to charge a portion of the Bureau’s costs to the various divisions receiving computer-related services. The second, the “stores” account, is used by the Department to account for computer hardware and software purchases requested by the divisions and institutions. When a purchase request is made, funds are transferred from the division’s or institution’s appropriation to the stores account so that the Bureau has funds under its direct control to pay for the purchase.

We expected the Bureau of Technology Management’s accounts to be used essentially as clearing accounts, whose primary advantage is administrative ease in tracking costs. Instead, we found the Department has accumulated large balances in these accounts because it made year-end transfers of funds that would otherwise have lapsed and avoided budgetary controls over purchases of computers and funding for IT projects.

Charges for Services

Starting in FY 1997-98, demands for agency-wide computer-related services and IT projects exceeded the funding directly available to the Bureau of Technology Management through existing GPR appropriations. The Department could have changed its spending plans and reallocated GPR funds from the divisions to the Bureau. Such action would not have required any transfers of funds between appropriations. Instead, near the end of FY 1997-98, the Department estimated its computer-related shortfall and assessed these costs to its divisions. The revenue from the assessments was deposited to the Department’s continuing program revenue—service appropriation authorized under s. 20.410(1)(kx), Wis. Stats. Starting in FY 1998-99, the Department estimated and assessed computer-related shortfalls at the beginning, rather than the end, of the fiscal year to address concerns of the division staff who had difficulties budgeting when assessments came later in the fiscal year.

As justification for developing its chargeback mechanism and using its program revenue appropriation to fund computer-related services and IT projects, the Department points to a June 1997 report by the Department of Administration’s Division of Technology Management that recommended it “establish a separate program revenue service appropriation to budget all information technology expenditures for the department.” However, we believe the manner in which the appropriation is used is not consistent with the narrative that follows the Department of Administration recommendation: “The operating budget for the Bureau of Technology Management should be placed in the appropriation. Further, the total planned cost for IT for the year should be budgeted within that appropriation and the cost allocated to the program divisions based on some type of formula.” The Department of Corrections has not followed the most important aspects of the recommendation because it does not budget all IT costs in the program revenue appropriation, and it only allocates a portion of its costs to the divisions.

The Department of Administration advocated a chargeback procedure so that all costs to provide IT services would be carefully budgeted and fairly allocated among the divisions. Since FY 1999-2000, the Department has charged \$536 for each of the computers used by the divisions, which totaled \$2.5 million in both FY 1999-2000 and FY 2000-01, and \$3.1 million in FY 2001-02, to support general operations of BTM. In addition, the Department has assessed the costs of specific IT projects back to the divisions. However, no consideration was given to the unspent balance that had accumulated in the charges for services/IT projects account.

As shown in Table 1, the balance in the charges for services/IT projects account has been increasing and, as of June 30, 2001, was \$2.3 million. It should be noted that in addition to the \$2.5 million the Bureau of Technology Management charged to the divisions in FY 2000-01, it credited approximately \$2.2 million as other revenues and transfers in. The principal component of the other revenues and transfers in represents two FY 2000-01 year-end transfers, totaling \$1.3 million.

Table 1

Charges for Services/IT Projects Account

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-2000</u>	<u>FY 2000-01</u>
Beginning Balance	\$ 0	\$ 834,573	\$ 119,478	\$ 523,837
Chargeback Revenues	1,613,944	2,115,305	2,539,270	2,534,513
Other Revenues and Transfers In	-	-	447,200	2,157,332
Expenditures and Transfers Out	<u>779,371</u>	<u>2,830,400</u>	<u>2,582,111</u>	<u>2,934,926</u>
Ending Balance	\$ 834,573	\$ 119,478	\$ 523,837	\$2,280,756

The first took place on June 5, 2001, when the Department transferred \$705,000 from its annual general operations GPR appropriation to the charges for services/IT projects account. Corrections officials explained the transfer was made to fund IT and other projects approved by the IT Management Council that had not been completed by the end of FY 2000-01. Before the end of the fiscal year, the Department transferred these funds to other accounts within the same program revenue continuing appropriation to be used for IT projects, costs related to moving its central offices, and future recruiting costs. It appears that the Department used the charges for services/IT projects account as a holding area for these funds, which would have lapsed to the General Fund if they had not been transferred into this continuing appropriation.

The second year-end transfer into the account was recorded on July 25, 2001, although it was effective for the fiscal year that ended on June 30, 2001. The Department transferred \$627,451 from the same annual general operations GPR appropriation to the charges for services/IT projects account for what the Department termed an "IT Management Council Assessment." The transfer was from GPR allocated for the Division of Program Planning and Movement, the Division of Adult Institutions, and several bureaus within the Division of Management Services. Corrections staff stated that these funds were earmarked for projects the Bureau of Technology Management had expected to complete in FY 2000-01 but could not complete because of the office move during that year. We were told the amounts assessed to each division for these projects were "based on available funding." In FY 2001-02, the IT Management Council approved the transfer of \$520,343 of the funds to separate accounts for specific IT projects, such as a local area network for the Offender Education Program.

While reviewing these transfers, we noted \$424,338 in other transfers from the same lapsing GPR appropriation to other accounts in the program revenue appropriation. Again, without authorization, on June 5, 2001, the Department transferred \$177,618 to accounts for specific IT projects and \$246,720 to an account for its moving costs, preserving funds that otherwise would have lapsed from an annual appropriation.

Table 2 summarizes the year-end transfers from the GPR appropriation to the continuing program revenue appropriation, along with the Department's intended uses of the funds.

Table 2

Projects Funded by Year-end Transfers

Year-end Transfers:		
June 5, 2001 transfer	\$705,000	
July 25, 2001 transfer	627,451	
Other June 5, 2001 transfers	<u>424,338</u>	
Total amount transferred from GPR		\$1,756,789
Funding Assigned by the IT Management Council for:		
Automated time-reporting system and the Purchase Plus system	\$470,000	
Offender Education Program local area network	191,000	
Computer equipment to connect institutions to central computer databases	136,343	
Frame relay project	62,250	
Computer security upgrades and on-going costs	50,000	
Electronic forms licensing agreements	45,000	
Photo-id cards with magnetic strips for offenders and staff	<u>43,000</u>	
Total funding assigned by the IT Management Council		997,593
Funding Assigned by the Division of Management Services for:		
Additional costs related to central office move	\$446,720	
Recruiting correctional officers and others related to new prison openings	<u>105,000</u>	
Total funding assigned by the Division of Management Services		<u>551,720</u>
Amount to be Allocated to Other Projects as Needed		\$ 207,476

The Department argues that these are high-priority projects and that it was critical to retain the transferred funds to allow the Department to carry out its strategic IT planning and meet other priority needs. While, as of December 31, 2001, the Department had spent less than \$400,000 on these projects, it had entered into various contracts with vendors for the majority of the remaining costs. However, the Department, without seeking legislative authorization, violated basic budgetary guidelines in carrying forward \$1.7 million in unspent funds that the Legislature appropriated for FY 2000-01, preventing these funds from lapsing to the General Fund to be re-appropriated by the Legislature.

The Legislature may wish to consider whether the Department should be allowed to retain some, or all, of the funds for the identified projects. In addition, the Legislature may wish to consider alternatives to better control budgeting and spending for IT costs within the Department of Corrections in the future. One option would be restricting the program revenue service appropriation to disallow the funding of such internal operations. Alternatively, because the appropriation may have value in allowing some budgetary flexibility, especially when funding needs are great, the Legislature could instead require changes in how the Department uses it. For example, the Legislature could require the Department to budget all IT costs through the program revenue service appropriation authorized under 20.410(1)(kx), Wis. Stats., or authorize a specific appropriation. It could also require the Department to ensure it has a reasonable methodology for charging IT costs to its divisions, which would include ensuring that unspent balances are considered in setting fees and would prohibit year-end transfers to avoid lapsing.

Stores Account

It is the Department's policy that the Bureau of Technology Management approve all computer equipment purchases to ensure correct model information and prices are included in the purchase request. For purchases of standard equipment, such as workstations and laptops, the Bureau combines several purchase requests and places a large order with a vendor. In these cases, upon the Bureau's initial approval of the purchase request, the requesting division directs the Bureau of Finance and Administrative Services to transfer funds from the division's appropriation to the stores account in the program revenue appropriation. The amount transferred consists of the expected cost of the purchased computer hardware plus a standard \$615 charge that provides \$405 for software licenses, \$150 for installation costs, and \$60 for training. In FY 2000-01, a typical charge for a workstation was \$2,250, including the \$615 charge.

Once the Bureau of Technology Management receives the vendor invoice, it makes payment using the funds in the stores account. We expected this account would function like a clearing account: the funds received from the division or institution would equal subsequent payments to vendors. Instead, as shown in Table 3, we found that the account had accumulated a balance of nearly \$2.2 million at the end of FY 2000-01.

Table 3

Stores Account

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-2000</u>	<u>FY 2000-01</u>
Beginning Balance	\$ 0	\$4,047,380	\$2,353,625	\$1,123,696
Revenues	6,510,921	2,385,519	1,791,195	2,932,566
Expenditures	<u>2,463,541</u>	<u>4,079,274</u>	<u>3,021,124</u>	<u>1,859,625</u>
Ending Balance	\$4,047,380	\$2,353,625	\$1,123,696	\$2,196,637

During fieldwork, we questioned staff on the large balance in this account. Subsequent to our inquiries, the Bureau of Technology Management, in August 2001, analyzed the June 30, 2001 balance to determine how much should be designated for future computer hardware purchases, for future costs of installation and training, and for software license fees. After accounting for these projected costs, \$511,037 remained undesignated in the stores account. This excess balance most likely represents previously transferred funds that exceeded the actual costs of equipment and other services provided. Such differences can occur because the costs of individual computers have decreased over time and there can be a considerable lag between the time a computer is requested and the time it is ordered.

Because these funds are no longer needed for the originally intended purpose, proper budgetary accounting would have required that the \$511,037 be returned to the General Fund. However, subsequent to the Bureau's analysis, on August 3, 2001, the Department transferred the \$511,037 to the IT Management Council account.

In September 2001, the Council approved the use of these funds for computer network servers and other equipment it believed was necessary to allow field offices and institutions to maintain access to critical data. The Legislature may wish to consider whether the Department's planned use of these funds is appropriate and whether the Department be allowed to retain all, or a portion, of the funds.

We are also concerned that use of the program revenue appropriation allows the Department to avoid budgetary controls over equipment purchases that would have been in effect had the purchases been made directly from an annual GPR appropriation. Annual appropriations are intended to be expended only during the fiscal year for which they are made, and unexpended balances lapse to the General Fund at the end of the fiscal year. Consistent with this principle, 16.52(6), Wis. Stats., states: "In all cases the date of the contract or order governs the fiscal year to which the contract or order is chargeable, unless the secretary [of the Department of Administration] determines that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgetary intent." The State Controller's Office

allows agencies to carry forward spending authority only for equipment received by the end of the fiscal year. Appropriation authority for specific equipment purchases not received by the end of the funding year will only be carried forward if delivery was delayed by the vendor or approval is received from the Department of Administration.

In reviewing FY 2000-01 transactions, we determined that the Department of Corrections transferred at least \$807,000 from annual GPR appropriations to the stores account between January 29, 2001, and June 30, 2001, for purchases that were not completed until after June 30, 2001. The State's accounting policies would have required these purchases to be financed by new annual GPR appropriations for FY 2001-02.

Corrections staff explained that they charge divisions and institutions for computer equipment at the time it is requested to ensure funds are available to pay for the equipment. Nevertheless, the Department is required to follow proper accounting guidelines to ensure purchases are charged to the proper fiscal year. We note that other large agencies generally charge their divisions for the cost of computer equipment when it is delivered to users and take steps to ensure outstanding encumbrances meet the Department of Administration's criteria for carryforward to the next year's accounts. Department staff informed us that they will eliminate the stores account in FY 2002-03 and require the divisions to directly purchase their computer equipment.

If the stores account is continued, the Legislature may wish to direct the Department of Corrections to discontinue the practice of transferring funding from division and institution appropriations to the program revenue appropriation prior to the receipt of the purchased equipment. If the Department discontinued this practice prior to the end of FY 2001-02, a one-time savings of up to several hundred thousand dollars of GPR, representing amounts that would have transferred to the stores account at the end of FY 2001-02 but would not yet have been spent, may be available for other purposes.

Purchasing Procedures

The Bureau of Technology Management is responsible for ordering computers and related items from vendors. To ensure compliance with state procurement guidelines, it is the Department's policy that central purchasing staff review and authorize all purchase orders generated by the Bureau. In addition, after items are received by the Bureau, both its fiscal staff and Bureau of Finance and Administrative Services staff are to match the vendor invoices with purchase orders to ensure payments are made only for items ordered and received.

However, we found that the Department does not consistently follow these procedures for Bureau of Technology Management purchases. For example, for 2 of 14 purchase orders we tested, Bureau of Technology Management staff revised the orders without informing central purchasing staff, and purchased items totaling \$53,384 that were not listed on the purchase orders. These items included laptops, a workstation, and a server for the Bureau of Technology Management's use. As a result, these purchases were not reviewed and authorized by central purchasing staff. These purchases were not detected by Bureau of Finance and Administrative Services staff because they did not match Bureau of Technology Management purchase orders to the vendor invoice. Bureau of Technology Management fiscal staff seemed unaware of proper

purchase order procedure and noted that orally amending purchase orders, rather than preparing new purchase orders for the needed items, occurs on a regular basis.

The additional items ordered by the Bureau of Technology Management appeared necessary for staff to perform their job duties. However, as a result of not following its own policies requiring a match between purchase orders and vendor invoices, the Department is at increased risk that unauthorized purchases could be made. For example, staff could order a computer for personal use and charge the purchase to an open purchase order. Since the control to match the vendor invoice to the purchase order is not working effectively, this may go undetected. The Department notes that it plans to automate its purchasing process, which it believes should assist in complying with state procurement guidelines.

We recommend the Department of Corrections require that all Bureau of Technology Management purchases be approved by both Bureau of Technology Management and central purchasing staff, and that Bureau of Finance and Administrative Services staff compare invoices to purchase orders before processing payments.

Software Licenses

The Bureau of Technology Management is responsible for purchasing and installing software on the Department's workstations and servers and for tracking software licenses to ensure the Department complies with software licensing agreements. An internal audit report dated February 4, 2000, indicated that the Bureau had not purchased a sufficient number of software licenses for all users. At that time, the Bureau of Technology Management staff purchased additional licenses to cover the needs discovered in the internal audit. After completion of the audit, management believed adequate procedures were put in place to ensure compliance with software licensing agreements.

The Department owns software written by several companies. We reviewed the Bureau's current procedures to monitor licensing agreements related to Microsoft products. It would be expected that the Bureau would track the software on each workstation and server and assign responsibility to ensure that a sufficient number of licenses has been purchased to cover all users. However, the Bureau does not have procedures in place to track and maintain accountability over software licenses, and as a result, it is not maintaining an adequate number of software licenses to cover the number of users.

Recently, a staff person was assigned responsibility for tracking software licenses and ensuring the Department remains in compliance with licensing agreements. To determine software license needs, this staff person requested information from the computer hardware vendor to determine the number of workstations purchased in the past two years. Based on this information, the staff person estimated the Department needed additional software licenses and, in June 2001, the Department charged an additional 1,200 licenses, at a cost of \$527,000, to the program revenue appropriation authorized under s. 20.410(1)(kx), Wis. Stats. However, the Department does not know the exact number of licenses it owns or the total number of licenses needed, and therefore is only estimating that an additional 1,200 licenses were needed.

Bureau of Technology Management staff noted the difficulty in accurately determining the number of workstations and laptops the Department owns in order to determine the number of software licenses needed. Recently, Bureau staff informed us they have now partially implemented a computer network tool called System Management Server that will assist in providing a count of all workstations connected to the Department's network. This tool will enable the Department to more accurately track the number of workstations, and thus determine its software license needs based on the number of workstations. It will be several months before this system is fully functional. Bureau staff also stated that two other systems, Purchase Plus and Asset Management, will be used to track how many workstations and software licenses are purchased each year. The Bureau plans to begin implementing Purchases Plus and Asset Management at the beginning of FY 2002-03.

We also note that the current state contract with Microsoft requires state agencies to order licenses within one month after installing the software. Because the Department purchases software licenses only periodically it is in violation with this requirement.

We recommend the Department of Corrections track the number of software licenses it needs and that it order software licenses in a timely manner in accordance with software contracts and licensing agreements.

Asset Tracking

Due to its susceptibility to theft, computer equipment, especially laptops, should be tracked and regularly accounted for. The State Accounting Manual and the GAAP Conversion Manual require state agencies to maintain permanent property records of all capital assets with a cost greater than \$5,000 for financial reporting and control purposes. In addition, the Accounting Manual states that "agencies should keep inventory control records for all significant (i.e. with a value over \$1,000) asset purchases." The Department has adequate policies and procedures related to capital assets greater than \$5,000. However, we found improvements are needed in the area of assets less than \$5,000.

The Department requires each of its divisions and institutions to maintain a list of moveable property, such as laptop computers, and to annually provide the list to the Fleet and Property Manager for insurance purposes. In addition, each unit is required to keep a separate listing of other data processing equipment, such as workstations, that includes identifying information such as make, model, and serial number. In our testing, we found a variety of procedures used at the various institutions and divisions related to asset management.

Some institutions, such as the Columbia Correctional Institution, keep detailed lists of all workstations and laptops that include identifying information such as serial numbers and locations. However, other units, such as the administrative office of the Division of Adult Institutions do not keep detailed records and simply report a count and the total value of their equipment to the Fleet and Property Manager each year. Staff in some units told us that they did not maintain detailed listings because they believed that the Bureau of Technology Management has computer-related inventory records; however the Bureau does not keep these records. Department staff have indicated they have recently allocated resources for the development of an asset management system to address these concerns.

We recommend the Department of Corrections follow its risk-management policies and maintain records of equipment with a cost between \$1,000 and \$5,000.
